

**MINUTES
of the
FIRST MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**May 30, 2013
Room 307, State Capitol
Santa Fe**

The first meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Patricia A. Lundstrom, chair, on Thursday, May 30, 2013, at 9:17 a.m. in Room 307 of the State Capitol in Santa Fe.

Present

Rep. Patricia A. Lundstrom, Chair
Sen. Joseph Cervantes, Vice Chair
Rep. Alonzo Baldonado
Rep. Ernest H. Chavez
Sen. Lee S. Cotter
Rep. Roberto "Bobby" J. Gonzales
Sen. Ron Griggs
Rep. Jimmie C. Hall
Rep. Yvette Herrell
Rep. Dona G. Irwin
Rep. Jane E. Powdrell-Culbert
Sen. William P. Soules
Rep. James P. White

Advisory Members

Sen. Sue Wilson Beffort
Sen. Jacob R. Candelaria
Rep. Sharon Clahchischilliage
Rep. Anna M. Crook
Rep. Kelly K. Fajardo
Rep. Mary Helen Garcia
Rep. Emily Kane
Rep. W. Ken Martinez
Sen. John Pinto
Sen. Clemente Sanchez
Rep. Edward C. Sandoval

Absent

Rep. Candy Spence Ezzell
Sen. Phil A. Griego
Sen. Michael Padilla
Rep. Debbie A. Rodella
Sen. John C. Ryan
Rep. Henry Kiki Saavedra

Rep. Brian F. Egolf, Jr.
Sen. Stuart Ingle
Sen. Timothy M. Keller
Sen. George K. Munoz
Sen. Bill B. O'Neill
Sen. Mary Kay Papen
Sen. William H. Payne
Rep. Sheryl Williams Stapleton
Rep. James R.J. Strickler
Rep. Thomas C. Taylor
Rep. Monica Youngblood

Guest Legislator
Sen. Cliff R. Pirtle

Staff
Lisa Sullivan, Legislative Council Service (LCS)
Tessa Ryan, LCS
Elizabeth Katz, LCS

Guests
The guest list is in the meeting file.

Handouts
Handouts are in the meeting file and posted online at http://www.nmlegis.gov/lcs/committee_handout_list.aspx?CommitteeCode=NMFA&Date=5/30/2013.

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The chair welcomed the committee members, who introduced themselves.

Interim Committee Procedures

John Yaeger, assistant director for legislative affairs, LCS, reviewed routine committee procedures, including information about achieving quorums, taking formal and informal actions and the availability of committee calendars.

NMFA Mission and Structure

John Gasparich, NMFA acting chief executive officer, informed the committee that the mission of the authority is to provide low-cost financing statewide for the:

- planning, design and construction of public infrastructure;
- purchase of public equipment and vehicles;
- conservation, development and delivery of water resources; and
- creation of private-sector jobs and economic development.

Mr. Gasparich stated that the major public infrastructure programs involving the authority include:

- the Public Project Revolving Fund (PPRF);
- Governor Richardson's Investment Partnership (GRIP) program;
- the Local Government Planning Fund; and
- the Colonias Infrastructure Fund.

Recipients of public infrastructure funding include local and tribal governments, state agencies, public schools, higher education institutions, special districts and local police and fire departments. Some of the partners with which the authority funds or implements public infrastructure programs include the Department of Transportation, the private banking community, institutional investors, the State Board of Finance, the United States Department of

Agriculture, the Department of Finance and Administration and the legislature, according to Mr. Gasparich.

PPRF — Bond Issuances and Use of Governmental Gross Receipts Tax Revenues

Michael Zavelle, NMFA chief financial strategist, and Mr. Gasparich informed the committee that the NMFA recently sold over \$44 million in bonds for its PPRF program. It was the first bond issuance since 2012, while the 2011 faked audit was being investigated. Throughout such investigations, the authority was able to maintain its high bond ratings with Standard & Poor's and Moody's in part because of the state's pledge of governmental gross receipts tax (GGRT) proceeds, which would be used to cover the amount of any default in loan repayments. Fortunately, no borrower has ever defaulted on a loan in the history of the PPRF program, from which 672 loans have been issued. The 100% loan repayment rate, in addition to the structure of the PPRF program and the conservative fiscal management practices of the authority, also helped the authority maintain its high bond ratings, according to Mr. Zavelle.

The primary component of the PPRF program is the GGRT allocation. Because of the GGRT allocation, the authority obtains an optimal bond issuance rate, which allows the NMFA to issue loans with very low interest rates.

The committee adopted a motion to draft an opinion for release to the media highlighting the recent bond issuance by the authority.

Water Project Funds and Water Trust Board Processes

Marquita Russel, chief of programs for the authority, and Angela Quintana, senior program administrator for water resources for the authority, distributed to the committee a handout and presented information about the water project funding programs administered by the authority with the assistance of the Water Trust Board. Ms. Russel stated that the Water Trust Board helps review applications for loans and grants from the Water Project Fund and the Acequia Project Fund and prioritizes projects for recommendation to the legislature. For detailed information about the sources and amounts of money in these funds, as well as the application review and project prioritization criteria and processes, please see the handout in the meeting file.

Richard P. Rose, Ph.D, director, Water Resources Allocation Program, Office of the State Engineer, followed Ms. Russel and Ms. Quintana with a presentation about the Water Trust Board's revision of the application review processes and funding cycle to maximize efficiency and efficacy. Included in his handout for the committee is a comparison of the timing and criteria of the 2013 and proposed 2014 funding cycles and an example of a funding eligibility list.

Dr. Rose also presented to the committee a comprehensive chart of most of the major funds that are available for public water projects in the state. Dr. Rose informed the committee that water-related projects may receive funding from the following funds through loans or grants administered by the authority:

- the Water Project Fund;

- the Drinking Water State Revolving Loan Fund;
- the Water and Wastewater Planning Fund;
- the Water and Wastewater Project Grant Fund;
- the Colonias Infrastructure Project Fund; and
- the PPRF.

Water-related projects also may receive funding from additional funds through loans or grants administered by agencies other than the authority. Please see the comprehensive chart that is posted as a handout to the legislative web site listed on page 2 of these minutes.

Responses to Auditor Recommendations

Mr. Gasparich and Donna Trujillo, chief financial officer for the authority, updated the committee on the authority's responses to investigations and audits conducted by the State Auditor's Office, the Securities Division of the Regulation and Licensing Department and the auditing firms PricewaterhouseCoopers, Hewitt EnnisKnupp and the Rogoff Firm. Those investigations and audits yielded multiple reports containing findings and recommendations. The authority synthesized the findings and recommendations in a "Findings Status Matrix" that was distributed to the committee members. Mr. Gasparich and Ms. Trujillo explained that the matrix lists focus areas; status (of compliance efforts); continued challenges; successes; and next steps. Some of the authority's compliance actions include the following recent improvements: entrance and exit conferences are being attended by the audit committee; the Bank of Albuquerque was selected as the new fiscal agent; the authority's board is approving and maintaining minutes and records; training courses are being completed by staff; and a new loan origination system is being implemented. According to Mr. Gasparich, the authority is committed to monitoring and complying with all areas of concern raised in the reports.

Ms. Trujillo informed the committee that the 2012 audit has been completed and submitted to the state auditor. The 2013 audit is pending because certain tasks must be completed by an internal auditor, which position is unfilled. The deadline for submitting the 2013 audit to the state auditor is December 15.

NMFA Budget and Staffing

Mr. Gasparich and Robert Brannon, controller for the authority, presented handouts and summaries of the authority's budget and use of staff positions. There was discussion about balancing the authority's need to operate on a flat budget with the growth in the programs that signal a need for additional staff. To buffer certain areas of organizational risk, as identified in the auditor's and investigators' reports, the authority added a position for an internal auditor and a position for a technology systems analyst.

Mr. Gasparich and Mr. Brannon also noted that the amount of operating expenses is slightly higher in fiscal year 2013 because of the cost of the PricewaterhouseCoopers investigation solicited by the Office of the State Auditor. That expense was offset to an extent by the lower bond issuance fees, since there was only one issuance in 2012, and by the fact that only 39 of the 47 staffing positions are filled.

Mr. Gasparich discussed Senate Bill 12 (2012 regular session), which would have established minimum qualifications for NMFA board members and specific requirements for conducting meetings. The legislature passed Senate Bill 12, but the governor vetoed it. Committee members expressed concern about inconsistent meeting attendance by some of the board members, which could impede the board's oversight of the authority. That problem would have been addressed by Senate Bill 12, which would have limited the number of meetings a board member could miss. A committee member requested a board update at each committee meeting.

After the legislative session, a certified public accountant was asked to serve on the board, according to Mr. Gasparich.

Statewide Economic Development

John Brooks, director of commercial lending for the authority, and Ms. Russel testified that the New Mexico Tax Credits program, the State Small Business Credit Initiative and the state's Economic Development Revolving Fund (EDRF) create opportunities for the authority to facilitate economic development. The New Mexico Tax Credits program and the State Small Business Credit Initiative receive federal funding, and the EDRF receives state and federal funding, according to Mr. Brooks and Ms. Russel.

Mr. Brooks and Ms. Russel stated that economic development program participants are private businesses in rural and underserved areas, small businesses associated with tribal entities and corporations that will be sited in the state. In operating these programs, the authority partners with commercial banks, private investors, the Economic Development Department (EDD) and the United States Department of the Treasury.

Mr. Brooks and Ms. Russel explained that the EDRF was created by the 2003 Statewide Economic Development Finance Act as a measure to equip the state with financing tools to make it more competitive with neighboring states in the field of economic development. The EDRF receives state and federal appropriations.

The EDRF has been used to operate two economic development programs: the Smart Money Loan Participation program and the Collateral Support Participation program. For both programs, the authority partners with private banks on loans made to qualifying businesses. While the private banks originate and service the business loans, the authority purchases an interest in the loans.

Mr. Brooks and Ms. Russel stated that the Smart Money Loan Participation program was created to focus on long-term, low-cost financing for businesses in rural areas. The Smart Money Loan Participation program requires that one or more jobs be created for every \$50,000 in loans made from program funding.

The Collateral Support Participation program provides short-term financing, such as lines of credit, for businesses whose financing needs are not met by the Smart Money Loan Participation program. Through a formal agreement with the authority, the EDD administers the

\$13.2 million in Collateral Support Participation program funding made available through the federal Small Business Jobs Act of 2010, according to Mr. Brooks and Ms. Russel.

Proposed Work Plan and Meeting Dates and Locations for 2013 Interim

Ms. Sullivan presented the committee's proposed work plan and schedule for the 2013 interim. Members recommended the addition of some items and changes to the proposed schedule, then adopted the proposed work plan.

2013 Legislation Summary

Mr. Gasparich summarized the five bills endorsed by the committee at the end of the 2012 interim that were introduced during the 2013 session and signed into law. Those bills were: House Bill 70 (Laws 2013, Chapter 21), which increased the number of entities authorized to receive PPRF loans; House Bill 18 (Laws 2013, Chapter 82), which appropriated \$2 million from the PPRF to the Drinking Water State Revolving Loan Fund; House Bill 54 (Laws 2013, Chapter 178), which appropriated \$2 million from the PPRF to the Local Government Planning Fund to make grants up to \$50,000 to public entities to pay for planning documents and feasibility studies; Senate Bill 228 (Laws 2013, Chapter 24), which authorizes the authority to make grants and loans from the Water Project Fund and the Acequia Project Fund to local governmental entities; and Senate Bill 118 (Laws 2013, Chapter 106), which extends for three years the suspension of legislative authorization otherwise required for a qualified entity to receive financing under the Statewide Economic Development Finance Act.

There being no further business, the committee adjourned at 2:16 p.m.